THE WINE GROUP

Building Strong Brands

August 29, 2005

Chief, Regulations and Procedures Division
Alcohol and Tobacco Tax and Trade Bureau
Attn: Notice No. 49
PO Box 14412
Washington, DC 20044-4412

Dear Chief, Regulations and Procedures Division:

We are writing in response to the Tax and Trade Bureau's ('TTB') request for comments on TTB Notice 49. This is to inform you that The Wine Group fully supports the proposal of changing regulation 27 CFR 4.27(a), to allow a baseline vintage requirement of 85% for American or imported wine labeled with an appellation of origin other than a country or viticulture area.

Improves Tank Utilization

The current 95% requirement impedes the efficiency of wineries that compete in the "fighting varietal" segment of the industry. Under the current requirements, tank utilization is inefficient as vital tanks must be used to store older vintage wine until younger wines are sufficiently mature as to be merchantable. This has two possible effects: 1) the winery is forced to make greater capital investment in new tanks; or 2) the winery is forced to reduce its grape purchases for new vintages because of a lack of cooperage. Both scenarios mean only one thing for the winery: higher production costs which in turn result in a higher shelf price for the consumer or lost sales to foreign competitors not burdened with the extra expense of complying with the 95% requirement.

By instituting the 85% vintage requirement, US wineries will have the ability to purchase and process more grapes without greater capital investment in storage. This in turn reduces production costs and ultimately reduces the shelf price. From a global competition standpoint, this also aids the US wine industry as capital investment in cooperage will finally be on par with that of our international competitors who currently do not have the need to invest in as much cooperage to satisfy carry forward vintage requirements.

In addition, the improved tank utilization efficiency not only helps the wine industry and the consumer, it has a positive effect on the grape grower. A informal survey of major California Central Valley wineries indicated that under an 85% vintage date rule tank utilization would improve by 6%. This indicates that winery demand for "fighting varietal" grapes might increase by as much as 60,000 tons due to expanded processing capacity and the inherent benefits commercial wineries derive from spreading overheads over more tons. This results in increased demand for grapes from US grape growers.

Levels Playing Field in the US Market

The US wine industry competes on a global scale, both outside of the country through exporting of its products and within the US through competition with imported products. Most countries have lower requirements when it comes to vintage dating. The entire European Union has an 85% requirement. Australia, which has made huge inroads into the US market, has an 85% requirement. Up and coming new world winemaking countries that are beginning to make headway into the US such as South Africa and Chile have only a 75% requirement.

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As we understand, many if not all of these countries are illegally importing wines at their respective country's vintage requirement level. These lower requirements allow them to blend in older vintages and vastly improve the taste and quality of their red wines and to improve the freshness and appeal of their older white wines by blending in younger vintages. This creates a very unlevel playing field as US wineries must adhere to the 95% domestic requirement. How are US wineries to compete when they are playing by different rules that diminish rather than improve wine quality and price/value?

Improves Quality

Some argue that a change to baseline vintage requirements could cause consumer deception. TTB determined some time ago that varietal and appellation requirements placed at 75% allows blending flexibility for improved wines without creating consumer confusion or deception. Why then would reducing the baseline vintage requirement to the global 85% standard create consumer confusion or deception? In fact, this is a win for consumers in better quality wines and greater clarity as to the definition of vintage across international wines.

By adopting the 85% vintage requirement it allows US wineries more flexibility in blending their wines to improve the consistency of quality that consumers have come to expect in their favorite brands year after year. For red wines, it will create smoother, less "green" wines that are more consistent between vintages. For white wines, older vintages will be fresher and fruitier and again more consistent between vintages. Thus, the more flexible vintage requirements improve the wines our consumers purchase; it improves quality and makes that improved quality available vintage after vintage.

Benefits US Wine Industry, Grape Industry, TTB and Consumers

Improved wine quality increases consumption, which improves freshness rotation of inventory, which increases winery demand for grapes, which improves grower returns, who in turn invest in greater quality inputs in their vineyards, which further improves grape quality thus making better wine…a cycle of success that builds upon itself.

Changing the regulations in favor of an 85% baseline vintage requirement is a win-win for everyone: the wine industry, the grape industry, the Tax and Trade Bureau ('TTB') and consumers. It is a win for US wineries by allowing them to compete fairly in their home country. It is a win for US grape growers as wineries will have additional cooperage to purchase more grapes. It is a win for TTB as it closes a loophole that is difficult and costly to enforce. It is a win for consumers of US wines as they will be buying wines of better quality and better value year after year. Because of this, we strongly urge TTB to change the regulations as proposed in Notice No. 49.

Cordially,
The Wine Group

David B. Kent
CEO

Attachment
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The Wine Group is the third largest wine producer in the United States and consists of the following wineries/wholesalers:

Winery/Wholesaler	*Registry/Permit*
Franzia Winery	BW-CA-3654
Concannon Vineyard	BW-CA-616
Mogen David Wine Co.	BW-NY-626
Corbett Canyon Vineyards	BW-CA-4885
Golden State Vineyards/Fresno	BW-CA-4808
Golden State Vineyards/Cutler	BW-CA-4
Golden State Vineyards/Monterey	BW-CA-4505
Franzia/Tulare	BW-CA-1438
Franzia/Sanger	BW-CA-10
Franzia/McFarland	BW-CA-3514
The Wine Group, Inc.	CA-P-5218